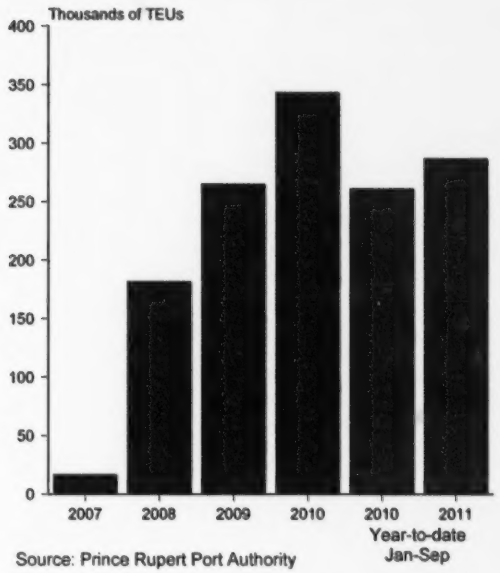
Port of Prince Rupert Making Waves with Increase in Container Traffic

In each year since the Port of Prince Rupert's container facility came online, the volume of containers moved through the port has increased. Based on data from January to September, it appears that this trend will continue in 2011. The amount of container traffic through the port, measured in TEUs,[1] expanded 45.8% between 2008 and 2009, despite the global economic downturn, and surged a further 29.5% in 2010. Over the first nine months of 2011, traffic has increased 10.0% compared to the same period in 2010.

Container traffic through the Port of Prince Rupert has increased each year since inception and is poised to increase again in 2011

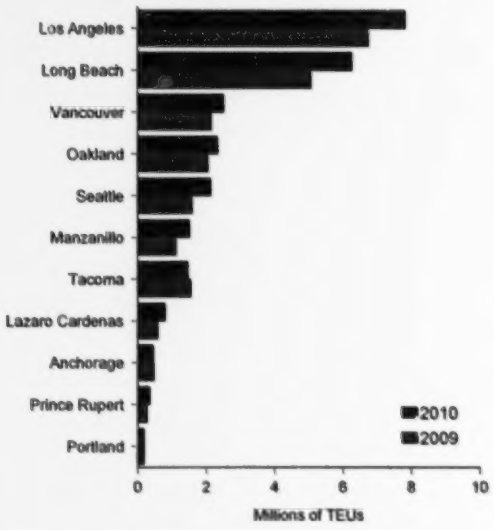


Source: Prince Rupert Port Authority

The container facility is still operating at only about 75% capacity, so there is still room for further improvement over the next couple of years and there are plans to eventually quadruple the terminal's capacity from the current 500,000 TEUs to two million TEUs. To put that into perspective, Port Metro Vancouver handled 2.5 million TEUs of containers in 2010.

The growth in container traffic through Prince Rupert has helped propel the port up to a rank of tenth in terms of containers moving through ports on the Pacific Coast of North America.

The Port of Prince Rupert ranks tenth in terms of container traffic on the Pacific Coast of North America



Source: American Association of Port Authorities

Prince Rupert's success in attracting traffic through its port has brought a lot of attention to the city, some of it unwanted. Politicians in the

[1] A TEU is a twenty-foot equivalent unit, which is the standard measure of container traffic based on the length of a container (e.g., a 40-foot container would be two TEUs).

United States have taken notice of the increase in traffic to the Port of Prince Rupert and have raised concerns that traffic bound for the United States is being "diverted" from American ports to ports in Canada and Mexico. There have been suggestions that there is an "unfair disparity" in competition for cargo with U.S. ports facing costs that their competitors in Canada and Mexico do not have to bear.

The specific cost in question is the U.S. federal Harbor Maintenance Tax (HMT), assessed at a rate of 0.125%, which is levied on the value of all goods shipped through U.S. marine ports to pay for maintenance dredging operations. In three similarly-worded letters from Members of Congress from Washington State and California and Senators from Washington State, it is suggested that the HMT is putting American ports at a competitive disadvantage relative to Canadian ports in particular, but also Mexican ports. The letters suggest that, "It is imperative that we level the playing field between international ports and domestic ports so that the U.S. can continue to compete for cargo ultimately bound for the United States."[2]

Rather than eliminate the tax, the method with which they wish to level the playing field appears to be to charge the HMT at land borders as well as at seaports. American Ambassador to Canada, David Jacobson, has denied that such a plan is being considered, but the fact that a number of politicians and U.S. ports are pushing for such a measure, and the fact that the Federal Maritime Commission is undertaking an analysis of the impact of the HMT on the "diversion" of U.S.-bound cargo from U.S. ports to those in Canada and Mexico has some in Canada concerned that it could happen.

While the letters refer to Canadian and Mexican ports, it is the success of the Port of Prince Rupert that has really been the motivation for this discussion. Richard A. Lidinsky, Jr., the Chairman of the Federal Maritime Commission, suggested in a speech in Montreal that the study he has requested will look at both the problem of crumbling infrastructure in the United States, as well as whether "anything unfair is being done north of the border."[3] He specifically alluded to the Port of Prince Rupert in his speech and how the federal government invested in the container port.

It is certainly true that the government covered part of the cost of the construction of the container facilities, but all subsequent costs of operations have been shouldered by the Port itself. Both the Port of Prince Rupert and Port Metro Vancouver are self-sufficient, revenue-generating operations.

The advantages that the Port of Prince Rupert has over its American competitors go well beyond the HMT. It has the deepest natural harbour on the West Coast and is ice-free yearlong, it is at least a couple of days sailing time closer to key Asian markets and it has extensive rail connections with none of the congestion problems associated with most urban ports.

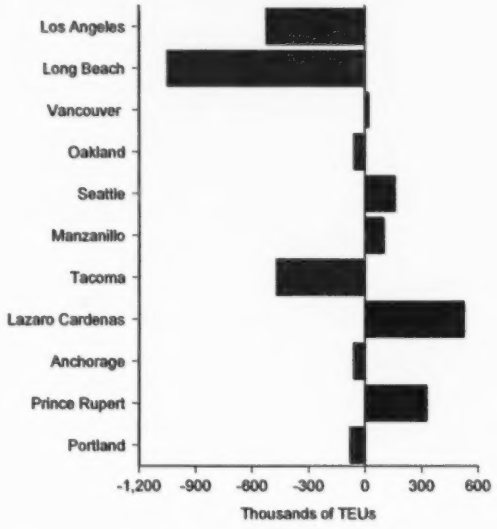
While it is true that several large West Coast American ports have seen a reduction in traffic since 2007, when the Port of Prince Rupert first

[2] Extracted from letters to Richard A. Lidinsky, Jr., Chairman of the Federal Maritime Commission, from Members of Congress of Washington State (dated August 29, 2011) and California (dated September 30, 2011). Similar wording appeared in a letter from Washington State Senators Patty Murray and Maria Cantwell (dated August 29, 2011).

[3] Remarks by Richard A. Lidinsky, Jr. at the Canada Maritime Conference in Montreal, Canada, September 21, 2011.

began to operate, these reductions were mainly related to the downturn in the economy. The losses in container traffic for the major American ports far exceed the gain in Prince Rupert, or even that of Lazaro Cardenas in Mexico, which recently expanded to add container capacity. Port Metro Vancouver saw very little growth over the four-year period.

Losses in container traffic at American ports from 2007-2010 far outweigh gains at Canadian and Mexican ports



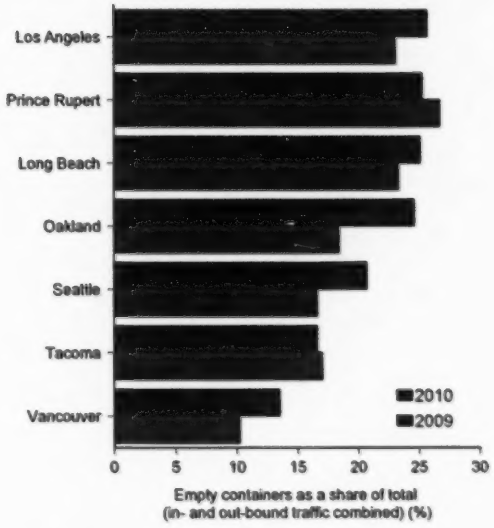
Source: American Association of Port Authorities

In reality, the amount of container traffic that may have been diverted to Canadian ports is not all that significant. According to a report put together by a consulting company, only 10% of laden import containers arriving at Port Metro Vancouver are destined for the United States.[4] Even if the entire volume of import container traffic going through Prince Rupert is added to this amount, it still only comes to around 300,000 TEUs, which is only just over half of the decline at just the Port of Long Beach, without even considering the reduction in import traffic at other American West Coast ports.

As further evidence that much of the decline was related to the economy, it should be noted that, with the exception of the Port of Tacoma and the Port of Anchorage, the other five American ports on the Pacific Coast of North America with over 100,000 TEUs of container traffic all experienced strong growth in traffic between 2009 and 2010. Tacoma's decline was due almost as much to a reduction in exports as to imports.

While Prince Rupert has managed to capture a significant amount of container traffic, the Port still has a problem with empty outbound containers. Virtually none of the inbound containers arrive empty, but more than half of outbound containers leave Prince Rupert empty, or 25% of total container traffic.

Prince Rupert has a substantial number of outbound empty containers



Source: Individual Port Authorities

[4] WorleyParsons, "Preliminary Container Traffic Projections for Port Metro Vancouver: 2011 to 2030."

This is a similar percentage as the largest West Coast American ports, but far higher than Port Metro Vancouver, which saw only 14% of containers moved through the port arrive or leave empty. Also, for Vancouver, a significant portion of those empty containers were inbound.

The empty container situation at the Port of Prince Rupert has improved since the first full year of operation when 30% of total container traffic was empty containers. In fact, container exports at the Port have grown at a much faster rate than imports. In 2011, year-to-date to September, growth in container imports has been 8.3%, compared to a 79.0% jump in container exports (loaded containers only).

It is unlikely that the American ports will have much success in their efforts to essentially put a tariff on container traffic entering the U.S. through land ports, such that the Port of Prince Rupert should continue to see growth in container traffic given the natural advantages the Port has over other West Coast ports. Growth may not have occurred as quickly as originally envisioned, but considering that Prince Rupert was one of the few North American ports to experience container traffic growth through the global economic downturn, one would have to consider the Port a success to date. If traffic growth can continue such that it justifies expansion, the Port of Prince Rupert could become one of the top container ports in North America.